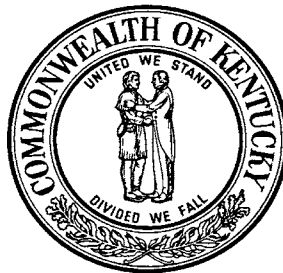


**REPORT OF THE AUDIT OF THE  
OWEN COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**June 11, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
OWEN COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**June 11, 2002**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Owen County Sheriff as of June 11, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$ 2,850,758 for the districts for 2001 taxes, retaining commissions of \$ 111,433 to operate the Sheriff's office. The Sheriff distributed taxes of \$ 2,735,926 to the districts for 2001 taxes.

**Report Comment:**

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$104,080 To Protect Deposits



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable William O'Banion, Owen County Judge/Executive

Honorable Zemer Hammond, Owen County Sheriff

Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the Owen County Sheriff's Settlement - 2001 Taxes as of June 11, 2002. This tax settlement is the responsibility of the Owen County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Owen County Sheriff's taxes charged, credited, and paid as of June 11, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable William O'Banion, Owen County Judge/Executive

Honorable Zemer Hammond, Owen County Sheriff

Members of the Owen County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 29, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$104,080 To Protect Deposits

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -  
January 29, 2003



OWEN COUNTY  
ZEMER HAMMOND, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES

June 11, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 333,326	\$ 379,396	\$ 1,354,984	\$ 368,556
Tangible Personal Property	15,964	17,460	53,822	38,073
Intangible Personal Property				13,257
Franchise Corporation	65,171	71,223	221,049	
Penalties	3,512	3,991	14,184	4,207
Adjusted to Sheriff's Receipt	7	21		
Gross Chargeable to Sheriff	<u>\$ 417,980</u>	<u>\$ 472,091</u>	<u>\$ 1,644,039</u>	<u>\$ 424,093</u>
<u>Credits</u>				
Exonerations	\$ 1,206	\$ 1,373	\$ 4,902	\$ 1,333
Discounts	4,329	4,918	17,442	5,317
Delinquents:				
Real Estate	9,102	10,359	36,998	10,063
Tangible Personal Property	13	14	43	33
Total Credits	<u>\$ 14,650</u>	<u>\$ 16,664</u>	<u>\$ 59,385</u>	<u>\$ 16,746</u>
Taxes Collected	\$ 403,330	\$ 455,427	\$ 1,584,654	\$ 407,347
Less: Commissions *	<u>17,429</u>	<u>19,356</u>	<u>57,048</u>	<u>17,600</u>
Taxes Due	\$ 385,901	\$ 436,071	\$ 1,527,606	\$ 389,747
Taxes Paid	385,581	435,401	1,525,480	389,464
Refunds (Current and Prior Year)	<u>607</u>	<u>669</u>	<u>2,126</u>	<u>276</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (287)</u>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 7</u>

\* Commissions:

10% on	\$ 10,000
4.25% on	\$ 1,256,104
3.6% on	\$ 1,584,654

\*\* Special Taxing Districts:

Library District	\$ 2,688
Extension District	(2,476)
Soil Conservation District	<u>(211)</u>

Due Districts or (Refunds Due Sheriff) \$ 1

The accompanying notes are an integral part of the financial statement.

OWEN COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 11, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 15, 2001 the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$ 104,080 of public funds uninsured and unsecured.

OWEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 11, 2002  
(Continued)

Note 2. Deposits (Continued)

	<u>Bank Balance</u>
Insured and collateralized with securities held by pledging depository institution in the county official's name	\$ 1,705,457
Uncollateralized and uninsured	<u>104,080</u>
Total	<u><u>\$ 1,809,537</u></u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 24, 2001 through April 15, 2002.

Note 4. Interest Income

The Owen County Sheriff earned \$ 2,604 interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Owen County Sheriff collected \$ 20,569 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Owen County Sheriff collected \$ 2,795 of advertising costs and \$ 565 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

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COMMENT AND RECOMMENDATION



OWEN COUNTY  
ZEMER HAMMOND, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

June 11, 2002

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$104,080 To Protect Deposits

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On November 15, 2001, \$104,080 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*We have talked with the bank and will correct.*

INTERNAL CONTROL:

PRIOR YEAR:

- Lacks Adequate Segregation Of Duties

This comment is not repeated because auditor has determined compensating controls offset lack of segregation of duties.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

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Honorable Zemer Hammond, Owen County Sheriff

Members of the Owen County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Owen County Sheriff's Settlement - 2001 Taxes as of June 11, 2002, and have issued our report thereon dated January 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Owen County Sheriff's Settlement - 2001 Taxes as of June 11, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation section.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$104,080 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Owen County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
January 29, 2003

